

Getting Covered

The self storage insurance sector is changing with the times.

By Mark Wright

A mere few decades ago, when the self storage industry was coming into its own, insurance was relatively simple—and the pool of providers was pretty small. The landscape has changed rapidly over just the past few years.

“There’s a lot going on in the self storage insurance industry,” says 30+ year insurance veteran Kay Schaefer, underwriter/agent at Deans & Homer. “There are so many more players



in the market and companies are coming up with new ways to bring people in.”

Likewise, Mike Schofield, president and CEO of Phoenix, Arizona-based MiniCo Insurance Agency, LLC, sees the contrast between today and the sector’s emergence in the 1970s.

“There was definitely a recognized need for tenant insurance back in 1974 when we began writing it,” says Schofield, since operators’ own commercial insurance program was not designed to provide any coverage on the contents of a tenant’s unit.

At the same time, owners were concerned about their own liability, recalls Schaefer. “Agents were coming around and noting that owners had exposures to liability excluded by other companies at the time,” she says.

Of course, self storage grew...and grew...not only expanding its footprint around the U.S. but also developing a greater variety of niche offerings for tenants.

“Facilities are larger today,” observes Schofield. “Building materials changed over time, security became more sophisticated, and more specialty storage operations came into the market—for example, wine, antique cars, collectibles, fine art, documents.”

Insurance Sector Responds

In turn, the insurance sector has responded with a wider array of products for the self storage owner and for their tenants.

Schaefer says there used to be two ways to write tenant insurance. “You had direct basis, where the tenant dealt directly with the insurance company. And you had pay-with-rent, where the facility owner sold insurance to the tenant along with his unit rental, then collected the funds from the tenant and got a small percentage or administrative fee for doing that. That second approach presents some problems, because the facility owner/operator needs to get a limited insurance license in many states.”

In addition to those two approaches, says Schaefer, two more strategies evolved over recent years that give owner/operators additional options.

In one, the owner/operator modifies a tenant’s lease to assume some of the liability for stored goods; the owner/operator then obtains a policy to cover himself for that

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contractual liability just like any other insurance policy. The difference in the charge for additional rents for the enhanced lease and the cost of insurance provides the operator with added income and goodwill with their tenants.

The other approach entails starting or joining a so-called “captive”—basically a self-funded pool that allows the funders (i.e., one or more storage owners/operators) to put money away that can be used to pay claims. A captive often takes the form of an offshore company, due to certain tax and legal considerations.



“There’s a lot going on in the self storage insurance industry.”

*Kay Schaefer
Deans & Homer*

“I’ve heard about a lot of companies doing this over the past couple years,” says Schaefer. “Storage owners who start a captive have to understand their money will be tied up for a very long term.”

Schofield notes that, while there are more captives around today than there were ten years ago, the approach is “probably more of a viable option for larger operators or large groups of operators. It takes an upfront investment and there’s an element of risk that’s different compared to when you’re covered by an insurance company.”

Variations

A variation on the captive approach is being offered by two recent entrants into the self storage insurance space.

SBOA Tenant Insurance, an affiliate of the group-purchasing association called the Storage Business Owners Alliance (SBOA), hit the market March 1, 2011, says president and co-founder Ian Burnstein. The SBOA itself was launched a year earlier in February, 2010.

Burnstein describes their insurance unit as “a captive, insured by an A-rated carrier and re-insured by a captive.



“We wanted to provide additional profit-generating opportunities for our members and decided to do this for ourselves.”

*Ian Burnstein
SBOA Tenant Insurance*

In addition to the captive owners participating in the program, we also sell to third parties, so you don’t have to be an owner to buy our insurance.”

Burnstein says the insurance offering integrates nicely with the SBOA’s overall business model. The SBOA was formed as a buying group for a variety of services and products needed by self storage owners/operators. Close to a thousand of the SBOA’s 2,400 member stores participate in the insurance program, Burnstein says.

“We definitely have a unique approach,” he notes. “We wanted to provide additional profit-generating opportunities for our members and decided to do this for ourselves. It allowed us to shape the service. We’re there to help make sure members’ tenants get the service they need. We also wanted to provide a higher administrative fee to our members to get them more revenue. In addition, owners/operators are attracted to the program due to the emphasis on training and customer service.”

Another variation on the captive theme can be seen with Storage Property Protection. The two-year-old firm—also based in Phoenix, Arizona—is organized as a warranty program, explains Matt Schaller, vice president of sales and client services.



“Liability assumption programs have been around for ten years and are more widely accepted as operators understand how they work.”

*Matt Schaller
Storage Property Protection*

“We’re set up a little differently than most providers,” says Schaller. “Our captive provides the insurance funding vehicle for our risk purchasing group. The risk purchasing group is what extends the opportunity to operators around the country who want to join it. We’ve taken a partnership approach with our operators, sharing in our profitability with them.”

Schaller says many types of businesses beyond self storage use a similar approach. “There are hundreds of risk purchasing and risk retention groups,” he observes. “Doctors, equine breeders, propane—any specialty niche can set up a risk purchasing group and then pass the risk along to a captive.”

“The storage operator assumes a limited exposure to various perils under contract and we immediately transfer that to our captive as a pass-through,” Schaller adds. “Liability assumption programs have been around for ten years and are more widely accepted as operators understand how they work.”

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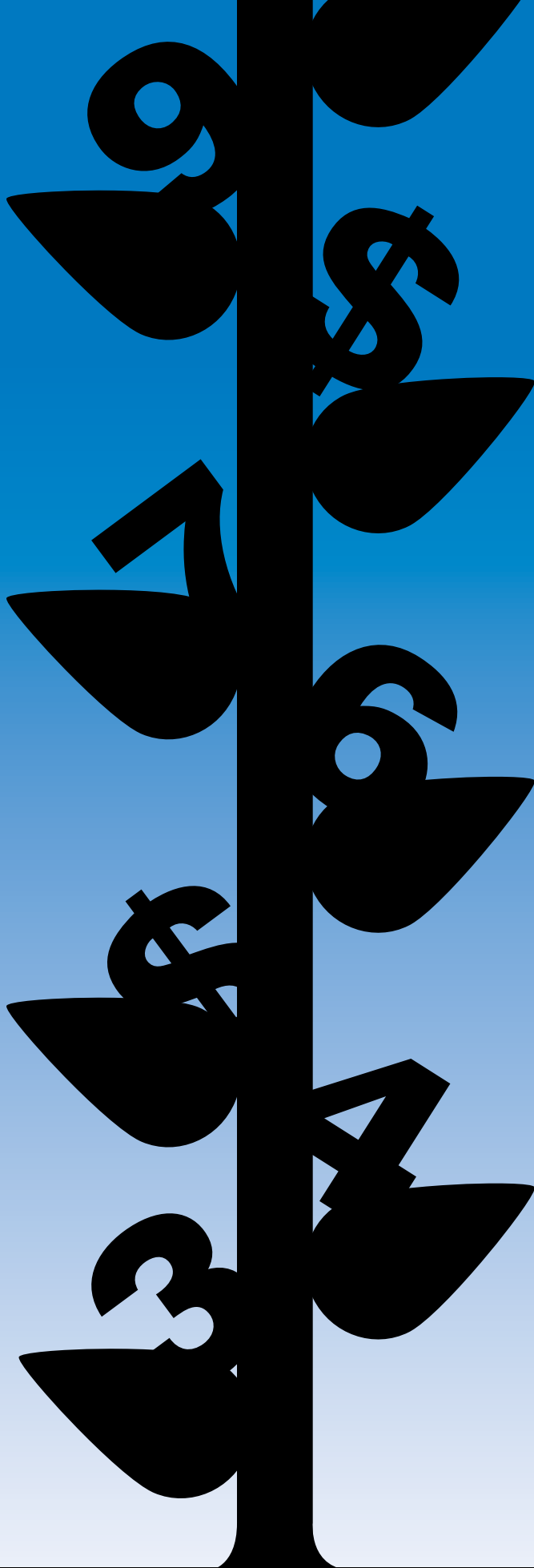
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Risky Business

Whatever form a risk management strategy takes, the insurance business is subject to profit and loss pressures that vary depending on each insurer's financial goals—and on uncontrollable factors, like the weather.

Schaefer points out that, as a basic principle, insurance companies need to make a profit like any other business. That means finding new revenue sources that bring in more dollars than are paid out on claims. Self storage is a good market because it's a stable industry with comparatively low risk, she says.



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for the next year premiums being flat."*

*Mike Schofield
MiniCo Insurance Agency, LLC*

"Many insurance companies have participated in the current 'soft market' in insurance—meaning premiums are low. But those same insurance companies have loss ratios that are creeping up, which forces them to change their market strategy," cautions Schaefer. She says self storage operators have benefited from this market, but may experience increases in their premiums in the future as insurance companies change their market strategy.

Schofield agrees. "Looking to the future, we do still see for the next year premiums being flat," he says.

He also notes, however, that some parts of the U.S. have experienced weather-related catastrophic events—tornadoes, hail storms, wind storms, as well as more slip-and-falls on ice and snow—over the past year. Catastrophes can translate into premium increases or even coverage terminations in hard-hit areas where losses eat too sharply into some insurers' profits, he adds.

Other trends to keep an eye on: the U.S. economy and the slowing of new self storage construction, adds Schaller. The latter puts more pressure on owners to maximize the profitability of what they have rather than expand, he says. And with the economy limiting the government's ability to capture revenue, "IRS scrutiny of offshore captives might increase if the feds look to close tax loopholes."

While storage operators have more risk management choices than in the early days, they nevertheless need to be savvy consumers.

Concludes Schaefer, "Owners have big issues and a lot of money on the line, so they need to know they're getting the right type and quality of coverage." ❖